

# **TESTIMONY ON U.S. TRADE POLICY IN CHINA**

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**Senate Committee on Finance  
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Mr. Chairman, Senator Moynihan, Members of the Finance Committee, thank you for inviting us to review with you the status of our trade policy with China today.

The past weeks have been eventful ones for this relationship. Our negotiations since the beginning of this year have been highly productive in all the major areas of American trade concern: agriculture, industrial goods, services and rules. China has made very significant commitments across the range of sectors and issues of concern to us, but a number of important issues remain to be resolved.

President Clinton and Premier Zhu have stated their goal of continuing negotiations to try to resolve the outstanding issues. We have, for six years, pursued these negotiations in a methodical manner, insisting at every juncture that accession must be on commercially meaningful terms. We have come far but are not there yet. This is the right approach for America's business, agriculture and workers. Now is not the time to depart from this careful, substantive approach and allow arbitrary deadlines to influence our negotiating position.

Our work has involved negotiations on a very large number of issues. Today I will review our progress so far. But let me begin with some more general comments about the place of China's accession to the WTO in our Pacific strategy and our national trade interest. I will then move on to review the specific commitments China has made, and to your questions and concerns about the work we have done and that which lies ahead.

## **TRADE IN AMERICAN CHINA POLICY**

Fundamentally, we have worked toward China's integration into the global rules-based trading system, because as a Pacific nation we have a vital interest in a peaceful, stable and prosperous Asia-Pacific region.

To secure this interest we maintain 100,000 troops in Asia, and we maintain strong alliances with Japan and other Asian democracies. We vigorously promote human rights, democratic principles and the rule of law throughout the region. And we engage China -- Asia's largest nation and fastest-growing economy -- to address our differences and find common ground wherever possible.

This includes a wide range of issues, from cooperation in regional security issues like the Korean peninsula to control over weapons proliferation, advocacy of human rights improvements at the UN Human Rights Commission and in our bilateral relationship, promoting labor rights, addressing climate change and other environmental questions, narcotics and crime control, and other issues as well. And a fundamental part of this policy, as a matter of commercial interest and as a complement to our strategic and security policies, is support for the economic integration of China into the Asia-Pacific region and the world economy.

China's economic isolation during the Cold War was vastly damaging to both China and to the Pacific region. For nearly forty years, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

Our effort to undo this isolation -- a bipartisan, patient effort continuing over the nearly thirty years since President Nixon's visit to China in 1972 -- has included the lifting of the U.S. economic embargo in the mid-1970s; our initial Commercial Agreement and mutual grant of normal trade relations in 1979 and 1980; the consistent renewal of normal trade relations for the past 20 years; and the market access, textile and intellectual property agreements we have negotiated in the 1990s. All of these trade policies have had multiple goals: the creation of opportunity for American businesses, working people and agricultural producers; the guarantee of fair trade principles; the advance of the rule of law, and the strengthening of China's own stake in the stability and prosperity of its neighbors.

And this policy has succeeded over the years. It has increased China's contacts with the outside world, bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us. China's constructive approach to the Asian financial crisis may well be at least a partial consequence of this policy.

### **U.S.-CHINA TRADE RELATIONS TODAY**

But at the same time, the progress has been slow. China remains a country characterized by high trade barriers and numerous unfair trade practices -- which create inefficiencies within the Chinese economy; slow the process of integration; and cause frustration and sometimes injury to American farmers, worker, and businesses.

China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain closed, depriving China of the jobs, efficiency and innovation competition could bring to the domestic economy. And the rule of law -- as Hong Kong Chief Secretary Anson Chan said last summer, the "infrastructure which enables enterprise to flourish" in any economy -- is undeveloped.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth in the present financial crisis and in the future. One index of this is our trade deficit with China, now over \$1 billion per week. Another is that between the opening of Normal Trade Relations (formerly MFN status) in 1980 and 1997, our exports to China grew only \$9 billion -- barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to the ASEAN nations.

WTO accession allows us to address the policy issues at the root of these problems in a comprehensive way. As it does so, it also is an opportunity to advance our broader interests and values beyond trade:

- As a matter of trade policy, a sound agreement will open Chinese markets to our exports, and give American domestic industries stronger protection against unfair trade practices.
- As a matter of strategy, WTO membership will complement our efforts to maintain peace and stability in the Pacific by linking China's economy more closely with the world's, creating constituencies within China for stability beyond its borders.
- And as a matter of values, WTO principles -- transparency, fair and impartial judicial practices, peaceful settlement of disputes, the rule of law -- are those we hope to advance in China and worldwide.

To win these benefits, an agreement on WTO accession must be commercially meaningful, addressing our major concerns in a detailed, enforceable and rapid way. This is also true for China -- a weak, "political" agreement would not yield the full potential for economic efficiency and growth in China. Thus, we are committed to a commercially meaningful accession; but while we have not yet reached agreement on such a package, in the past months we have made significant progress toward the goal.

### **PROGRESS THUS FAR**

We have reached consensus with China on a broad range of market access commitments covering each major sector: agricultural products, manufactured goods, and services. And we have reached consensus with China on some of the most important and difficult Protocol issues, including safeguards against import surges, guarantees for our right to use appropriate non-market economy methodology in dumping cases, and protection against abusive investment policies like forced technology transfer and offset requirements. Talks will continue on a range of important market access and Protocol issues, however -- including many that must be addressed multilaterally -- and until they are each concluded on an acceptable basis, we will not be in a position to conclude the WTO accession. These include banking, securities, consumer auto finance, and the duration of rules regarding dumping and safeguards.

Let me now review the progress we have made thus far in agriculture, industrial goods, services and rules.

## **OUTLINES OF COMMITMENTS THUS FAR**

On market access, we have a broad set of Chinese commitments covering most of our concerns. This set of commitments has four features:

- First, it is broad. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution within the Chinese market; unjustified sanitary and phytosanitary standards; and restrictions on services.
- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.
- Third, it is fully enforceable. The commitments China has made in all areas are specific, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the protocol issues.
- Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat took effect immediately on their signature last Saturday, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one, in virtually every area. The phase-in of further broad concessions in all these areas will be limited to five years in almost all cases; in many instances the transition time ranges from one to three years.

Some examples of the progress thus far include:

### **1. Agriculture**

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time, adopt liberal tariff-rate quotas in bulk commodities of special importance to American farmers, apply science-based sanitary and phytosanitary standards including in grains, meats and fruits, and eliminate export subsidies. Notable achievements here include:

Sanitary & Phytosanitary Standards – China will apply sanitary and phytosanitary standards based on science, eliminating its bans on American meats, citrus fruit and Pacific northwest wheat. In citrus, the industry estimates that this can mean up to \$700 million in new exports, when coupled with China's market access commitments on accession and

later.

Tariffs – China's agricultural tariffs will decline to 14.5% for our priority items. All cuts will occur within a maximum four-year time-frame; by contrast, WTO developing countries received ten years. Results in some top priorities include tariff cuts from 45% to 12% in beef; 40% to 12% in citrus; 30% to 10% in apples; 50% to 12% in cheese; and 65% to 20% in wine. And all tariff cuts will be bound at applied levels – that is, unlike many of our trading partners, China will not have a right to raise tariffs beyond these levels once it enters the WTO.

TRQs – China will liberalize its purchase of bulk agricultural commodities like wheat, corn, soybeans, rice, cotton and so on. It will adopt tariff-rate quotas – that is, very low tariffs on a set volume of commodities – in these bulk commodities. The wheat TRQ, for example, begins at 7.3 million tons and rises to 9.3 million tons by 2004. (Present import levels are below 2 million metric tons.) In all these TRQs, private traders will be guaranteed a share of the TRQ and a right to use unused portions of the share given to state trading companies. This will help establish legitimate private-sector trade in China.

Export Subsidies – China will not provide agricultural export subsidies. This is an important achievement in its own right, and a major step toward our goal of totally eliminating export subsidies in the next WTO Round.

## **2. Industrial Goods**

In industrial goods, China will cut tariffs and bind them at the new, lower levels; make the deepest cuts in the areas of highest priority to the U.S.; allow American firms to import, export and distribute their products freely in China; and eliminate quotas and other numerical restrictions. Specific achievements in industrial goods include:

Trading Rights and Distribution – China will grant American companies, over a three-year phase-in period, rights to import and export products without Chinese middlemen, and to market, wholesale, retail, repair and transport their products -- whether produced in China or imported. Companies which set up business in China will also be able to import the goods they choose from the United States. Even for China's most protected sectors, such as fertilizer, China will grant full trading rights and distribution rights in five years.

Tariffs – China will make substantial tariff cuts on accession and further cuts phased in, two thirds of which will be completed in three years and virtually all of which will be completed within five years. On U.S. priority items, tariffs will drop on average to 7.1% -- a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these levels. Some specific examples include:

Information Technology Agreement – China will participate in the Information

Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items connected to the information superhighway by 2003 in most cases and 2005 in a few others. This places China on the same footing as other ITA participants, who are required to phase out all tariffs in these sectors by 2005.

Autos – China will reduce tariffs on autos from 80%-100% today to 25%, and on most auto parts to 10%. This will be done by 2005.

Wood and Paper Products – China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%.

Chemicals – China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to 5% to 6.5% in most cases. In other high-tariff items, China will cut tariffs significantly as well.

APEC -- China has agreed to implement the early voluntary sectoral liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers – China will eliminate all quotas and other quantitative measures on accession for top U.S. priorities such as certain fertilizers and fiber-optic cable, by 2005 in all cases and by 2002 in most cases. In autos, China has committed to an initial quota of \$6 billion – well above our current exports and the highest level of exports achieved in the past, and thus large enough that it will pose no restriction on trade. That quota will grow by 15% each year and will be eliminated entirely in 2005.

### **3. Services**

In services, while discussions continue on audiovisual, banking and securities, China has agreed to broad-ranging commitments such as:

Grandfathering – China will guarantee to protect the existing rights and market access of all service providers operating in China.

Insurance – China will end restrictions on large-scale risk insurance throughout China immediately, grant licenses solely on prudential criteria, phase out restrictions on internal branching and remove restrictions on majority control or joint ventures, gradually eliminate geographical and numerical limits on licenses, and take several other measures.

Telecommunications – China will join the Basic Telecommunications Agreement, implementing

regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within four years, mobile and cellular within five years; and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, phasing in 49% foreign equity in all services in six years and 51% foreign ownership for value-added and paging services in four.

Audiovisual – Here, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction, and ownership and operation of cinemas. We continue to discuss several issues here as well.

Distribution – China will remove all restrictions on wholesaling, retailing, maintenance and repair, and transportation within three years, along with restrictions on auxiliary services including express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Also covered, of course, is a broad range of other services – architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and many more.

#### **4. Protocol**

Let me now turn to the Protocol issues. Some of these are completed; on others we will need work, including as part of the WTO process involving a large number of other countries. China has already made significant commitments in a number of major areas of concern, but significant issues remain outstanding. Commitments include:

- Product-specific safeguard provisions to ensure effective action in case of import surges.
- Guarantees that we will continue to use our current “non-market economy” methodology in anti-dumping cases.
- Commitments to eliminate requirements that companies export what they make in China or use Chinese parts or other products when they manufacture there. Our companies will not have to agree to offsets to invest in China or to receive permission to import U.S. goods.
- A ban on requirements for technology transfer for U.S. companies to invest in China.
- Guarantees that state trading companies and state-invested enterprises operate solely on commercial terms, and specification that purchases by these companies are not government procurements and are thus not subject to any special or different rules.

The important question of the duration of several of these special provisions remains open, and we continue to discuss other issues as well.

## **WTO ACCESSION AND OTHER AMERICAN PRIORITIES**

Any final accession package must be judged primarily on its value to working people, businesses and agricultural producers. It is not a substitute for a vigorous and effective policy in other areas of our relationship with China, and is not intended to be such. When completed and when enforced, however, it will complement our work in such areas as human rights and security policy, helping us build a peaceful, prosperous and open Pacific region; and to advance fundamental American principles of freedom, transparency, accountable government and the rule of law.

Thus, as I welcome scrutiny of the trade policy details of the WTO accession, I also hope that Americans will think about them in the larger context of Pacific security and American values. And I would like to take the remainder of this time to speak to those questions.

### **1. Pacific Security**

First of all, with respect to security, as ultimate WTO membership helps integrate China more fully in the Pacific and world economies, it will ensure that China's stake in its neighbors' stability and prosperity continues to grow.

This trend began with the economic opening of China in the late 1970s and early 1980s. Its results are clear in the contrast between the revolutionary foreign policy China pursued in the 1960s and early 1970s, when it sought the overthrow of neighboring governments; and the approach China has taken to the Asian financial crisis today, when it has sought to help stabilize their economies through contributions to IMF recovery packages and its own currency stability policies.

WTO accession, by reducing Chinese barriers to trade and investment and providing enforceable means of keeping them lowered, will deepen and accelerate this process of integration. Thus, this is in no sense a substitute for the U.S. military commitments, security treaties and other policies designed to ensure peace and security in the Pacific; but it will complement them in our larger search for a peaceful, stable and open Asia-Pacific region.

### **The WTO Accession and American Values**

And as in the case of security, the WTO accession will complement and support efforts to advance the cause of human rights.

WTO membership, in its largest sense, represents adherence to a set of accepted international rules. They include the development and publication of laws and regulations;



consistency in decision making; recourse to law enforcement and judicial proceedings; curbs on the arbitrary exercise of bureaucratic discretion. And these concepts in turn rest upon universal values and ideals including transparency, public and enforceable commitments, and openness to the outside world.

The WTO accession thus will accelerate the trend toward development of the rule of law within China. It thus complements the work our colleagues in other agencies are doing in advocacy for political prisoners, activity at the UN Human Rights Commission and engagement with China's top leadership on human rights issues in the Administration's efforts to bring China closer to conformity with international standards of human rights.

## **CONCLUSION**

In summary, over the past months we have made very significant progress on this work.

We have attempted to address the principal concerns of American agriculture, manufacturing, and service industries. And we have enhanced the work on rules.

If this progress continues, we will ultimately reach a result that creates a fundamentally fairer trade relationship. And at the same time, we will contribute to our larger goals of a Pacific region more stable and peaceful than it is today; and to the advance of universal values worldwide. This is a process which is in the American national interest.

Let me conclude, though, by saying once more that the work is not yet done. WTO accession will come only on completion of a commercially meaningful agreement; and that means each part of a commercially meaningful agreement, including the market access commitments and the Protocol issues, which are central. In the weeks ahead, we will consult with the Committee and other Members of Congress to make sure that our work meets your concerns.

Thank you very much. And now I will take your questions.